

TESTIMONY OF JAMES R. KUNDER
ASSISTANT ADMINISTRATOR FOR
ASIA AND THE NEAR EAST
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
BEFORE THE
COMMITTEE ON INTERNATIONAL RELATIONS
U.S. HOUSE OF REPRESENTATIVES
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Mr. Chairman, members of the Committee, it is an honor to appear before you today. I welcome the opportunity to testify on behalf of the U.S. Agency for International Development (USAID). Today, I would like to describe to the committee USAID's contributions to the President's National Strategy for Victory in Iraq, as well as USAID's perspective on the work of the Special Inspector General for Iraq Reconstruction (SIGIR) and the USAID Inspector General.

During Administrator Tobias' recent trip to Iraq, he remarked on the courage, skill and dedication of the Iraqis who, themselves, are actively involved in the reconstruction process. While visiting the Provincial Reconstruction Team (PRT) in Babil Province, south of Baghdad, Ambassador Tobias met with Iraqi civil society organizations – local non-governmental organizations – who are spurring grassroots democracy through community groups in the region, despite personal threats and personal dangers. These groups described how they were mobilizing public opinion to lobby provincial leaders on community needs and priorities -- a new, but exhilarating process in south-central Iraq. Ambassador Tobias noted how impressed he was with the sophistication that these Iraqi groups displayed in understanding the dynamics of democracy, their ready grasp of information technology as a communications mechanism, and their total commitment to a new, democratic Iraq.

The Administration has a clearly defined plan of action in Iraq, and USAID's programs, including our goals and benchmarks, support the President's National Strategy for Victory in Iraq in all three tracks – security, political and economic. The goal of the Administration's strategy is to create a new Iraq with a constitutional, representative government that respects civil and human rights; is able to maintain domestic order; keep Iraq from becoming a safe haven for terrorists; is capable of providing essential and other services to Iraqi citizens; and is able to harness its economic potential to create jobs and other opportunities for its people. The fundamental operating principle of this strategy is that transition to Iraqi self-sustainment and responsibility cannot be made without integrated progress on all three tracks.

I would like to talk about what USAID is doing now as well as what we are planning for the future. The civilian U.S. government (USG) effort is crucial to our success in Iraq. It not only supports the Multi-National Force-Iraq (MNF-I), it advances the Government of Iraq's (GOI) security actions against the insurgency. We have all heard how Iraqi and Coalition forces have wrested control of many cities and areas from the terrorists. In most cases, Iraqi troops, with the help of the Coalition, are maintaining security. Their success in these post-conflict areas will allow our forces to come home. But these Iraqi units cannot be expected to maintain peace and stability without the help of Iraqi civilian institutions, and without assurances that Iraqis can depend upon essential services provided by their government and can look forward to political participation and economic opportunities. Specifically, the U.S. and international civilian effort helps to enable and consolidate gains made in the security situation in several ways:

- It strengthens Iraq's capacity at the local and national level to govern and provide essential services to Iraqi citizens.
- It supports economic and social stabilization programs to minimize local support for the insurgency and foster support for the GOI.
- It assists the public sector's sustainable economic development by creating the enabling environment that will allow the private sector to flourish and by providing the private sector with the resources for the economic growth necessary to create jobs.

Since March 2003, USAID has been allocated approximately \$5.1 billion in Iraq Relief and Reconstruction Funds (IRRF). Of this amount, we have disbursed approximately \$4 billion and we expect to disburse most of the remaining funds by this summer. Now, let me briefly summarize some of our accomplishments.

Accomplishments

First USAID is working with U.S. multinational units to help cities recover from the effects of battle and to begin the revitalization process. Projects are funded with complementary USAID and military funds. These projects are aimed at a combination of small, rapid programs followed by more complex projects that operationalize public services, promote representative local government and help resuscitate the economy. USAID's implementing partners provide the majority of project monitoring with assistance from the military as needed. USAID is continuing this effort through our new Community Stabilization Project, which creates opportunities for disenfranchised people.

Second, USAID-managed programs enable the democratic transformation in Iraq. USAID supported US goals and worked with the United Nations, the United Kingdom, Canada, and the European Community for a successful constitutional referendum in October 2005 and two national elections, in January and December 2005. Our programs have also provided expert assistance, drawing from the international community and Iraqi civil society to assist the Iraqi Constitutional Drafting Committee. USAID continues to support decentralization, empowering provincial and city authorities to provide essential services so that Iraq will be less likely to return an authoritarian centralized government. In the field, assistance teams work with the Provincial Councils to help them shoulder the burden of decentralized power

Third, on the economic front, USAID worked with the Treasury Department to provide assistance to the Central Bank of Iraq that helped stabilize the dinar, prevented hyperinflation, and enabled Iraq to qualify for International Monetary Fund (IMF) lending and Paris Club debt rescheduling. Our assistance to the Ministry of Finance, through the design and placement of a Financial Management Information System (FMIS) at 53 centers country wide, is providing the GOI with the ability to track its budget and expenses. Through increased statistical gathering and analysis provided by the new Government Public Distribution System, USAID is able to provide assistance to the Iraqis in the most need

Fourth, is working with the Project Contracting Office (PCO) to facilitate infrastructure repairs that are addressing gaps in power and water delivery. At present, USAID projects have added 1,292 MW of new or rehabilitated generation capacity to the national grid. This is a big portion of the over 2,700 MWs of new or rehabilitated capacity added in total by the USG. USAID partners provided operation and maintenance programs that will safeguard the investment of U.S.

assistance. In telecommunications, USAID has installed 12 domestic switches and one international switch; installed a satellite gateway system and restored international calling service; and completed the installation of a consolidated fiber optic network which connects electricity and communications sectors and will allow Ministry of Electricity officials to monitor and control the electrical grid from three central locations, greatly improving the reliability of electric power service to Iraqis.

USAID has refurbished or expanded 19 water treatment plants in five cities in Iraq increasing the supply of potable water from USAID projects to over 2.3 million Iraqis. USAID has also provided sewage treatment to over 5.1 million people. We have also been providing plant-level operations and maintenance support at major potable water and sewage treatment plants nationwide to ensure that these plants continue to function. In addition, USAID's rural water program is installing over 70 small water treatment systems in rural communities of less than 5,000 people throughout Iraq. The rural water program will help to supply clean water to almost 500,000 villagers each day.

Fifth, USAID is helping to build a long-term sustainable economy through our agricultural assistance programs. USAID's Agriculture Reconstruction and Development Program for Iraq (ARDI) is generating real jobs that sustain livelihoods – up to 28,000 jobs per day according to employment records in 2006. The program is managed by a small core of expatriate technical advisers and a larger team of 250-300 Iraqis through five offices across the country with less than 8 percent of project funds going towards security.

Thanks to canal and water infrastructure improvements made possible by small-scale grants, 445,000 Iraqi farmers now have improved efficiency of irrigation or access to water on 320,000 acres of farmland. ARDI has also established date palm nurseries in 13 governorates that will expand the true to type palm tree population by 410,000 new trees a year. Throughout the country ARDI planted 9,000 olive trees in 16 demonstration plots, which will produce high value oil.

Sixth, USAID is focused on providing a better future for Iraq and is investing in this future by focusing on the country's children and youth. A demographic youth bulge threatens Iraq's future. In 2004, half of all Iraqis were under the age of 20 years old. Given current population growth rates, the population will double by 2030. Despite vast oil reservoirs, Iraq currently has some of the lowest literacy rates and poorest health statistics in the region. USAID's education and health projects have partnered with the United Nations (UN) to improve education and health care for future generations through improving the quality of teaching and the learning environment for schoolchildren and improving the capacity of the Ministry of Health to provide quality essential services nationwide, including vaccinations against infectious diseases such as measles, mumps, rubella, and polio.

Provincial Reconstruction Teams (PRTs)

USAID is working cooperatively with other USG and Iraqi agencies in the current combined effort to expand Provincial Reconstruction Teams (PRTs). PRTs add value to the USG effort by building productive relationships between provincial and national government institutions; establishing lines of communication and cooperation between the civilian and military components of the PRTs; devolving USG authority to an interagency group outside of the host

country's capital city; and linking external donor assistance to sub-national government structures and populations.

To date, four PRTs have been inaugurated in Iraq (Nineva, Tamim, Babil, and Baghdad) with four others having been stood up (Anbar, Salah ad Din, Dhi Qar, and Basrah) but have yet to be inaugurated. USAID has identified seasoned development professionals to serve as the USAID representative to each of the current and future PRTs, a procedure that will be replicated for each future US-led PRT opened in Iraq. This individual works to ensure the appropriate linkage of PRT activities with USAID programs, in particular its local governance program, as well as citizen participation for greater transparency and accountability and improved services delivery.

Additionally, the USG is working to engage other coalition partners in the PRTs. The USG, in coordination with these coalition partners, is currently setting up several additional PRTs. USAID is an active participant in this process and is staffing the necessary positions as they are made available and needed.

Our Commitment to Accountability

USAID has been, and continues to be, committed to ensuring that the resources that Congress has provided are managed effectively and transparently. Ensuring that these funds are utilized in such a manner only strengthens their impact on Iraq and improves the chances for success in Iraq. Accountability for Iraq funds is fortified by the right mix of experience and teamwork between our field mission in Baghdad and office in Washington. Experienced controllers, contracting officers, and Inspector General staff have been in Iraq since 2003 working with technical staff to help ensure program accountability.

We have welcomed the creation by the Congress of the Special Inspector General for Iraq (SIGIR), with whom we work closely.

Accountability starts with a fair and open procurement process. USAID complies with all applicable federal regulations and works closely with our Office of the Inspector General (OIG) to identify and address any weaknesses USAID may have had in its procurement processes. USAID's accounting and procurement systems ensure that the responsibility for procurement authorizations, justifications, and payments are segregated and recorded. A summary audit report on the contract award process found that USAID has generally complied with applicable regulations.

The President's Management Agenda shows USAID with "green light" progress on improvements in financial management. The Iraq Budget and Finance Team received the Administrator's 2005 Management Improvement Award for innovative financial information tracking.

USAID's on-the-ground presence is critical to project oversight. Well-trained, on-site contracting staff and project managers use informed judgment to oversee USAID projects. USAID's project managers are trained through a certification program in acquisition management practices. These personnel, located in Baghdad and regional offices, provide the technical oversight of our programs. Throughout this year, USAID personnel have averaged 14 project site visits per week. Our colleagues in the U.S. military have been forthcoming in

providing not only security support for our staff, but assistance in monitoring USAID projects in those areas deemed to be insecure. USAID has also taken proactive measures, such as fraud awareness training for government employees, contractors, and grantees to reduce the likelihood of undetected fraud, waste or abuse of funds. OIG audit staff in Baghdad conduct performance audits of USAID programs on a regular basis and often concurrently to enable USAID to identify problem areas early on. There have been over 20 OIG performance audits and reviews and approximately 70 financial audits completed.

Finally, one of USAID's most valuable resources in ensuring program effectiveness and accountability are Iraqis themselves, who have greater freedom of movement than expatriates. USAID has 107 Iraqi national staff in its Mission in Baghdad and through its implementing partners, an extensive network of Iraqi organizations that are critical to the design and implementation of USAID's projects. USAID and its implementing partners currently employ thousands of Iraqis in professional career positions. These staff members have the community ties that facilitate Iraqi ownership and contribute to proper oversight of USG resources.

USAID works closely and collaboratively with SIGIR in support of the fulfillment of its mandate regarding the oversight and monitoring of funds appropriated or otherwise made available to the IRRF.

USAID has participated in or been the subject of a number of SIGIR audits or reports, including: the audit of USAID Mansuria Electrical Reconstruction Project, the audit to determine compliance with the Prompt Payment Act for IRRF expenditures; the audit of USAID's management of the transfer of IRRF projects to the Iraqi Government; and the audit of methodologies for reporting cost-to-complete estimates under P.L. 108-106.

On-going SIGIR audits and reports in which USAID currently participates include: SIGIR's review of USG roles and responsibilities under IRRF; audit of the Basrah Children's Hospital Project; review of the definitization of contracts supporting reconstruction in Iraq; review of close-out processes and procedures for IRRF contracts; review of infrastructure protection; and the SIGIR survey of the U.S. Embassy Baghdad's anticorruption program.

Additionally, USAID regularly provides information to SIGIR for input to its quarterly reports to Congress and responds to any number of ad-hoc SIGIR data calls, including a data call related to education, migration, human rights and governance.

To date, only two of the completed SIGIR audits have resulted in recommendations for USAID:

1. In the audit report on methodologies for reporting cost-to-complete estimates, SIGIR recommended that USAID develop internal guidance for estimating and reporting cost-to-complete information for IRRF-funded activities and seek to coordinate with IRMO, to develop a mutually agreeable methodology for calculating cost-to-complete estimates.

USAID is working to develop, in coordination with IRMO, guidance for calculating and reporting cost-to-complete estimates for USAID IRRF-funded projects.

2. In the SIGIR audit concerning USAID's management of the transfer of IRRF projects to the Iraqi Government, SIGIR recommended that USAID, in coordination with IRMO, complete the development of a common policy and process facilitating the transfer of completed project assets to the GOI.

USAID firmly believes that the USG must ensure that its IRRF investments in Iraq are formally accounted, operated, and sustained by the GOI. To this end, USAID participated in an IRMO-led interagency process to develop uniform procedures for the formal transfer and recognition of USG-funded capital assets to the Iraqi Government. Procedures were being developed at the time the SIGIR audit was issued.

The procedures entail a three step process: 1) each participating USG executing agency develops and implements a project that produces or improves a capital asset in accordance with its own rules, policies and procedures; 2) upon completion, again using its own policies and procedures, each executing agency hands over control of capital assets to the responsible GOI line ministry (e.g., Ministry of Electricity) for its beneficial use, operation, management, control, and protection; and 3) in coordination with IRMO, each executing agency or department formally transfers the capital assets to the GOI, as represented by the Ministry of Finance and the relevant line ministry.

USAID endorses and utilizes steps 1 and 2 of the above-referenced procedures and has carried out these steps with the majority of our major infrastructure projects. Now that the new government is in place, USAID is working to finalize the parameters of step 3.

In conclusion, I want to assure you that USAID is taking every measure it can to ensure that U.S. government resources are used effectively and transparently. The successes that have been achieved to date in Iraq are the tangible results of these efforts. I believe with Congress' continued support, USAID will be able to make further strides in helping to achieve success in Iraq.

Mr. Chairman, thank you for offering me this opportunity to discuss USAID's role in Iraq with your Committee. I am prepared to answer any questions that the committee has. Thank you.